

The Merchants Trust PLC

As focused on dividends as you are



Aim

The Trust's objective is to provide an above average level of income, income growth and long-term growth of capital through a policy of investing mainly in higher yielding large UK companies.

History

The Merchants Trust PLC was incorporated in February 1889, making it the oldest of the investment trusts in the Allianz Global Investors stable. Initially it invested in the fixed interest securities of railway companies in the USA, Canada and South America, but now concentrates primarily on major UK companies with an above average rate of dividend yield.

Trust Benefits

Merchants has for many years focused on a simple proposition to deliver a high and rising income together with capital growth for its shareholders. Simon Gergel has been managing the trust for over 15 years, investing in a diversified portfolio of large, well-established and well-known UK companies. Although past performance is no guide to the future, Merchants has paid increasingly higher dividends to its shareholders year on year for the last 42 years.

Key Information

Launch Date	16 February 1889
AIC Sector	UK Equity Income
Benchmark	FTSE All-Share
Annual Management Fee	0.35%
Performance Fee	No
Ongoing Charges ¹	0.55%
Year End	31 January
Annual Report	Annual published in April, Half-yearly published in September
AGM	May
NAV Frequency	Daily
Dividends	March, May, August, November
Price Information	Financial Times, The Daily Telegraph, www. merchantstrust.co.uk
Company Secretary	Kirsten Salt Kelly Nice
Investment Manager	Simon Gergel, CIO, UK Equities
Codes	RIC: MRCH.L SEDOL: 0580007

1. Source: AIC, as at the Trust's Financial Year End (31.01.2024). Ongoing Charges (previously Total Expense Ratios) are published annually to show operational expenses, which include the annual management fee, incurred in the running of the company but excluding financing costs.

This is a marketing communication. Please refer to the Key Information Document (KID) before making any final investment decisions.



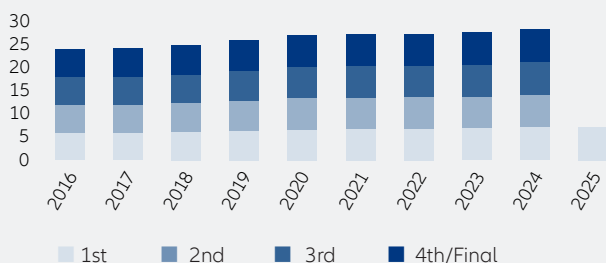
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The RSMR rating is designed for use by professional advisers and intermediaries as part of their advice process. This rating is not a recommendation to buy. If you need further information or are in doubt then you should consult a professional adviser.

Ten Year Dividend History

Dividend Record in Pence per Share
To Year End 31 January



Last Four Dividend Payments per Share

Record Date	Pay Date	Dividend	Type
12.07.2024	22.08.2024	7.20p	1st Interim
19.04.2024	22.05.2024	7.10p	Final
02.02.2024	14.03.2024	7.10p	3rd Interim
06.10.2023	10.11.2023	7.10p	2nd Interim

Past performance is not a reliable indicator of future results.

Total Assets £980.5m

Shares in Issue 148,324,887 (Ordinary 25p)

Market Cap £889.9m

Share Price
600.0p

NAV per Share
595.3p

Premium/-Discount
0.8%

Dividend Yield
4.8%

Gearing
14.0%

Fund Manager's Review

The key feature of July was a change in leadership. This was as true in politics as it was in equity markets, though the two were not necessarily related. In the UK, Keir Starmer won a commanding majority in the general election, and brought in the first Labour government since 2010. This was widely expected and had limited impact on financial markets. The elections in France were less predictable and left no clear government, but an alliance of left-wing parties won the greatest number of seats. This helped prevent the far-right from taking power, and provided reassurance for markets. Although the US presidential election does not take place until November, there was a change in leadership among the Democrats too, with President Biden announcing he would not contest the next vote and anointing Kamala Harris as his successor. This shifted sentiment, with early polls indicating a much closer contest with Donald Trump, who had been widely expected to beat Joe Biden.

The equity market also saw a change in leadership. This was clearest in the USA, where there was a sharp rotation away from the largest technology companies, the so-called "Magnificent 7", which had dominated the market in the first half of the year, towards the rest of the market, and notably the mid-sized and smaller companies. The Russell 2000 Index of smaller companies produced a double digit return in the month, compared to relatively flat (though volatile) returns from the broad indices and the technology heavy Nasdaq Composite Index.

The UK stock market does not have the same technology exposure, but there was also a change of leadership and strong outperformance from medium sized companies, which tend to be more cyclical and domestically oriented. There was optimism that the UK was moving ever closer to the first interest rate cut this cycle, which could support the economy. A cut in base rates by 0.25% to 5.0% was subsequently announced on 1 August. There may also have been some relief that the UK now looks set for a period of political stability, at least compared to many other developed nations.

“ In the last month, we have seen an end to continued political uncertainty, with the Labour government winning a large majority, and most recently the first interest rate cut of this cycle, which has been widely anticipated

Overall, the UK stock market returned just over 3% in the month. It was led by an unusual combination of cyclical sectors such as construction & materials and housebuilders, as well as defensive sectors like tobacco and utilities, which all produced double digit or high single digit percentage returns. The weakest sectors included mining and oil & gas, which were impacted by weaker commodity prices, as well as aerospace & defence and pharmaceuticals.

Portfolio performance was well ahead of the benchmark, helped by the large exposure to building related companies and medium sized companies in general, with many shares rising by double digit percentages. Correspondingly, the Net Asset Value (NAV) total return for July was 8.00% versus 3.13% from the benchmark index. The largest individual contributor to outperformance was Drax, the renewable power generator, where the share price was up over 30%. The company reported strong half year results, and announced a £300m share buy-back, representing well over 10% of the company's value. IG Group, the financial trading company, rallied on interim results and the first commentary from the new chief executive, who outlined plans to accelerate change in the business and drive more local accountability. Other notable performers included the car distributor Inchcape and the ground engineering business Keller.

There were fewer negative performance contributors but the automotive components manufacturer Dowlais was weak, as some car manufacturers reported challenging conditions. The reinsurer SCOR had a profits warning in its US Life & Health business and Atalaya Mining pulled back, as the copper price weakened.

There was one new addition to the portfolio, a company that can trace its roots back to the 1850's, when Thomas Burberry created his eponymous brand. In 1879, 10 years before The Merchants Trust was founded, Burberry invented Gabardene, a lightweight waterproof fabric, which was used to make the company's famous trenchcoats. Nowadays Burberry is a UK listed luxury goods business, best known for coats, scarves and certain



Simon Gergel, Portfolio Manager

The Merchants Trust PLC is managed by Simon Gergel who is Chief Investment Officer, UK Equities at AllianzGI and has 32 years investment experience. Simon joined AllianzGI in April 2006 from HSBC Halbis Partners where he managed over £900m in high income funds as well as core institutional and life UK equity portfolios. Prior to joining HSBC, Simon worked for 14 years at Phillips & Drew Fund Management / UBS Asset Management.

check patterned fabrics, operating from over 400 stores worldwide. Whilst the company has some notable strengths, the business has struggled in recent years. It had a poorly received move into highly priced accessories and higher fashion ranges, under designer Daniel Lee, as well as some operational missteps. This has coincided with a slowdown in luxury sales globally, and particularly in the important Chinese market. The company has had several profit warnings and the shares had lost about two thirds of their value in just over a year to the end of June. Despite difficult trading, the company has no debt, other than operating leases, and we believe it still has strong long term potential as a portfolio holding. The fall in the share price created an opportunity for us to make a modest investment in early July.

On the 15 July Burberry had another weak trading update. Whilst poor trading had been widely anticipated, it was even weaker than expected and the board decided that more radical action was necessary. The company announced an immediate change in the chief executive, a reversal of strategy to move back towards the classic heritage ranges and a cut in the dividend. Whilst we did not expect an immediate dividend cut, it was a possibility we had discussed before investing. We are prepared to hold strong business franchises through a restructuring period, where we can see significant value. After subsequent conversations with the company chairman and investor relations team, we added a little more to the position.

Elsewhere, with some sharp movements in share prices across the market, we made several incremental changes to the portfolio. We took advantage of weakness in certain shares to add to positions, such as DCC and WPP, as well as supporting the fund raising at Unite Group, which will be used to buy and build more student accommodation. We reduced large positions in several companies, typically after strong performance. These included Drax, IG Group and Keller. We also reduced National Grid, having recently supported its large rights issue at a significantly lower price.

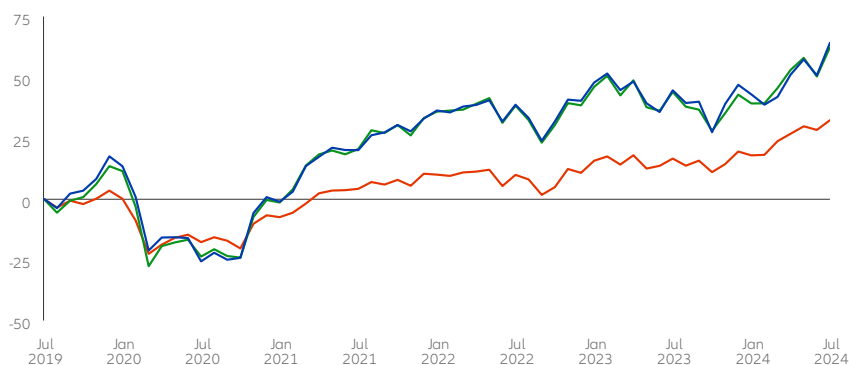
The UK stock market has performed reasonably well this year, supported by better economic data, falling inflation and a resurgence in takeover activity. Company results have generally been robust, which has supported a high level of share buybacks. In the last month, we have seen an end to continued political uncertainty, with the Labour government winning a large majority, and most recently the first interest rate cut of this cycle, which has been widely anticipated. All of this should be positive for a UK stock market that remains modestly priced despite this year's moves. Further, the dispersion of valuations is high, providing many interesting investment opportunities. Whilst in the short term the UK market will be driven by economic and market events in the UK and elsewhere, we continue to see excellent value across the portfolio, and we remain optimistic about the outlook.

Simon Gergel
12 August 2024

This is no recommendation or solicitation to buy or sell any particular security. Any security mentioned above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date.

Performance Track Record

Five Year Performance (%)



■ Share Price ■ NAV (debt at fair value)

■ Benchmark: With effect from 1 February 2017 the benchmark changed from the FTSE 100 to the FTSE All-Share Index

Risk & Features

Investment trusts are quoted companies listed on the London Stock Exchange. Their share prices are determined by factors including the balance of supply and demand in the market.

Merchants seeks to enhance returns for its shareholders through gearing which can boost the Trust's returns when investments perform well, though losses can be magnified when investments lose value. You should be aware that this Trust may be subject to sudden and large falls in value and you could suffer substantial capital loss.

Derivatives may be used to manage the Trust efficiently.

Cumulative Returns (%)

	3M	6M	1Y	3Y	5Y
Share Price	8.7	14.8	13.5	36.8	64.2
NAV (debt at fair value)	6.1	16.6	12.7	34.7	62.3
Benchmark	4.4	12.3	13.5	27.1	32.4

Discrete 12 Month Returns to 31 July (%)

	2024	2023	2022	2021	2020
Share Price	13.5	4.3	15.5	61.5	-25.7
NAV (debt at fair value)	12.7	4.1	14.8	57.9	-23.7
Benchmark	13.5	6.1	5.5	26.6	-17.8

Source: Thomson Reuters Refinitiv DataStream, percentage growth, mid to mid, total return to 31.07.24. Copyright 2024 © DataStream, a Thomson Reuters company. All rights reserved. DataStream shall not be liable for any errors or delays in the content, or for any actions taken in reliance thereon.

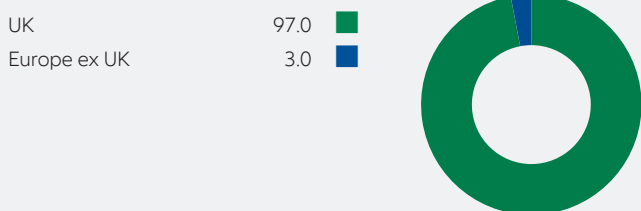
Past performance does not predict future returns. Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors might not get back the full amount invested. This investment trust charges 65% of its annual management fee to the capital account and 35% to revenue. This could lead to a higher level of income but capital growth will be constrained as a result.

Portfolio Breakdown

Sector Breakdown (%)

Financials	20.9	<div style="width: 20.9%;"></div>
Industrials	18.1	<div style="width: 18.1%;"></div>
Consumer Staples	14.6	<div style="width: 14.6%;"></div>
Consumer Discretionary	13.4	<div style="width: 13.4%;"></div>
Energy	9.8	<div style="width: 9.8%;"></div>
Utilities	8.0	<div style="width: 8.0%;"></div>
Health Care	5.8	<div style="width: 5.8%;"></div>
Real Estate	5.2	<div style="width: 5.2%;"></div>
Materials	3.8	<div style="width: 3.8%;"></div>
Cash	0.4	<div style="width: 0.4%;"></div>

Geographic Breakdown* (%)



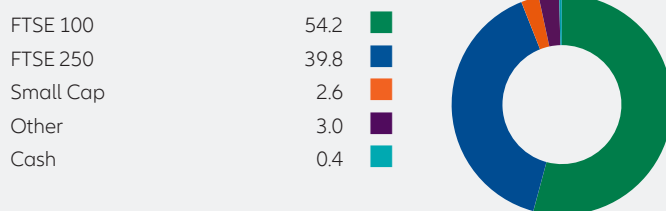
Top Ten Holdings (%)

British American Tobacco	4.5
GSK	4.4
Shell	4.2
Barclays	3.4
IG Group	3.3
Inchcape	3.1
Scottish & Southern Energy	3.1
Lloyds Banking Group	3.1
BP	2.9
WPP	2.9

Total number of holdings** 53

**Excludes derivatives

Market Cap Breakdown (%)



This is for guidance only and not indicative of future allocation. Totals may not sum to 100.0% due to rounding.

This is no recommendation or solicitation to buy or sell any particular security.

*Excludes Cash

Board of Directors

Colin Clark (Chairman)

Timon Drakesmith (Chairman of the Audit Committee)

Lisa Edgar

Karen McKellar (Senior Independent Director)

Mal Patel

Glossary

Share Price is the price of a single ordinary share, as determined by the stock market. The share price above is the mid-market price at market close.

Net Asset Value (NAV) per Share is calculated as available shareholders' funds divided by the number of shares in issue, with shareholders' funds taken to be the net value of all the company's assets after deducting liabilities.

The NAV figure above is based on the fair/market value cum income of the company's long-term debt and preference shares (known as debt at market value). This allows for the valuation of long-term debt and preference shares at fair value or current market price, rather than at final repayment value (known as debt at par).

Premium/Discount. Since investment company shares are traded on a stock market, the share price that you get may be higher or lower than the NAV. The difference is known as a premium or discount.

Dividend Yield is calculated using the latest full year dividend divided by the current share price.

Gearing is a measure of a company's financial leverage and shows the extent to which its operations are funded by lenders versus shareholders.

How to invest

You can buy shares in the Trust through:

- A third party provider - see 'How to Invest' on our website, where you will find links to a range of these platforms, many of which allow you to hold the shares within an ISA, Junior ISA, SIPP and/or savings scheme.
- A stockbroker.
- A financial adviser.

Contact us

If you have any queries regarding our investment trusts our Investor Services team can be contacted on:

0800 389 4696

www.merchantstrust.co.uk

E-mail: investment-trusts@allianzgi.com

You will find much more information about The Merchants Trust on our website.

Please note that we can only offer information and are unable to provide investment advice. You should contact your financial adviser before making any investment decision.



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All data source Allianz Global Investors as at 31.07.24 unless otherwise stated.

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